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PORTUGAL

West Germany is considering a loan to Portugal to help resolve Lisbon's impending international liquidity crisis. The non-Communists who now dominate Portuguese politics fear that without foreign assistance, the severe economic restrictions the government would be forced to adopt would provoke popular unrest and threaten political stability.

Chancellor Schmidt told newsmen on Wednesday that the West Germans were contemplating extending credit to the Portuguese central bank. Schmidt indicated a proposal is being studied similar to the arrangement with Italy in which the Italians received a \$2-billion credit by putting up their gold reserves as collateral. Bonn has already agreed to give Lisbon \$27 million in bilateral aid, but Schmidt gave no figure for the latest proposal.

The announcement followed Schmidt's discussions with Portuguese Socialist Party head Soares, who is on a week-long tour of European capitals to explain recent developments in Portugal. Soares' mission is partisan rather than official, but any aid commitments he can produce will enhance the Socialists' popularity in the legislative elections promised for this spring.

Soares has emphasized in his talks with foreign leaders that although the political situation in Portugal is stabilizing, the country urgently needs economic assistance. Portugal's foreign exchange reserves are expected to run out early next year. The nation's gold reserves, valued at about \$4 billion at the present rate, were expected to forestall the crisis, but government efforts to sell or borrow against the gold have been unsuccessful, in large part because of the gold market's current instability and the reluctance of bankers to deal in large quantities of gold.

The Azevedo government expects to approve the first of a series of austerity measures—including a wage freeze and price and tax increases—at today's cabinet session. Linked to the government's efforts to stop the downward spiral of the economy is an unpublicized decree issued earlier this month that gives the finance minister authority to reduce or suspend nearly all previously budgeted government expenditures. This should help reduce the budget deficit, now running at 10 percent of gross national product, and could also help dampen the inflationary surge.

Government officials believe they have gained sufficient strength since last month's paratroop uprising to move ahead with their austerity program. They fear, however, that the more severe restrictions that would be required if foreign assistance is not forthcoming might set off popular protests, which could provide the Communists with an opportunity to stage a political comeback.

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While the cabinet is concentrating on the economy, military leaders have turned their attention to renegotiating an agreement with the major political parties over the division of government responsibility between military officers and civilian politicians. The armed forces presented a draft revision to the parties on Wednesday. The parties have until December 30 to submit their responses and proposals for a new pact. Early next year, a five-man delegation from the all-military Revolutionary Council will discuss the proposals with each party and draw up a final document.

The five-man delegation is weighted in favor of those officers who are willing to reduce the military role in national political life but who do not want to withdraw from the government altogether. One of the members of this group, Lisbon Region commander Lourenco, said recently that the military should quit politics at the "right moment"—but that this would not occur immediately after the legislative elections in the spring.

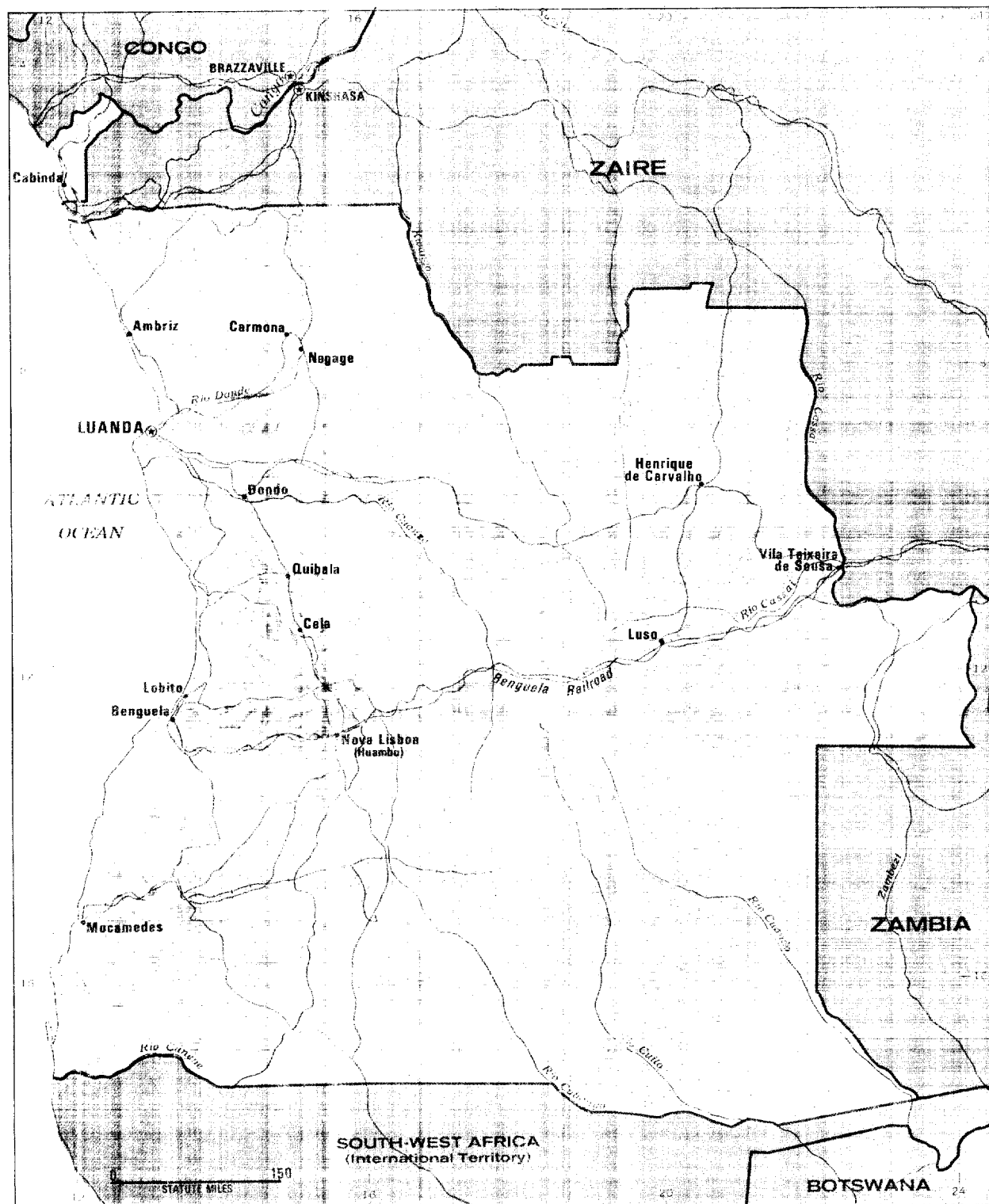


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ANGOLA

The fighting in Angola has picked up over the past few days, with the two sides trading gains in different areas.

25X1 The combined National Union - National Front force that captured Cela from the Popular Movement late last week has moved to within ten miles of Quibala, [redacted] A second National Union force, approaching Quibala from the east, reportedly is within 14 miles of the town.

25X1 The capture of Quibala would put the allied forces in a position to move along a major highway toward Dondo, the Popular Movement's only major base before Luanda in this sector. The hydroelectric plant that provides power to Luanda is located near Dondo.



25X1 Meanwhile, a 300-man Popular Movement force reportedly has advanced to within 60 miles of the National Front's base at Negage in northern Angola. So far, the force apparently has not succeeded in breaking through the Front's outer defenses southeast of Negage. The goal of the Movement's force is Carmona, the second most important National Front base after Ambriz on the coast. [redacted]



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MOZAMBIQUE

Loyal forces and dissident troops have clashed for the second night in Lourenco Marques.

Information on the disorders is sketchy. According to South African press reports, the fighting started Wednesday afternoon when about 400 dissident troops and police mutinied and attacked key installations in the central part of the city. Government forces were reported to have restored order by Thursday, but fighting has resumed and apparently spread to slums on the outskirts of the city.

The dissidents reportedly were reacting against a crackdown ordered last weekend by President Samora Machel on corruption and political agitation in the police and the army.

Although there have been no previous overt signs of opposition to the government from within the military or police, some discontent with the regime's tight control over society and with the declining economy has surfaced since Mozambique became independent last June. In October, workers dissatisfied with high unemployment staged a brief riot in the port city of Beira.

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CHILE

The Christian Democratic Party is preparing to abandon its tacit truce with the Pinochet government. The party's leader, former president Eduardo Frei, will shortly distribute a political pamphlet attacking the government.

What the anticipated Frei blast will almost certainly do is to reinforce the existing "siege" mentality and strengthen President Pinochet's determination to enforce the moratorium on politics vigorously. If Pinochet responds true to form, he is likely to engender widespread criticism from the US and Western Europe, where Frei is highly regarded.

Frei, whose party was declared in "recess" after the coup in September 1973, has refrained from open polemics in order to avoid proscription of the party and his own expulsion from the country. The principal motivation behind Frei's decision to speak out now is his growing fear that the government may indeed succeed in destroying the party altogether.

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Frei and his colleagues also appear to believe that Pinochet's troubles are mounting. They cite the stagnating economy, the regime's worsening relations with the Catholic Church, Pinochet's problems with some of his fellow junta members, and the bad light in which the Christian Democrats think Chile is held abroad. Whatever foundation in fact there is for these views, the Christian Democrats appear to have concluded that Frei has more to gain by challenging the government than by letting his party continue to atrophy. What Frei and his colleagues probably hope for ultimately is to induce Pinochet's military critics to oust him and establish a moderate government that would seek cooperation from the Christian Democrats and a return to democratic forms.

There are discernible differences within the military over Pinochet's style and his tendency to act unilaterally without consulting the junta. We see no evidence to suggest, however, that anyone has sufficient support to challenge him at this time. Indeed, most indications suggest that the armed services are united behind Pinochet and are willing to endure the high cost of what they see as necessary sacrifices to restore the Chilean economy and put the country on a permanent anti-Marxist footing.

The President has the option of sidestepping the issue. If Pinochet moves against Chile's largest democratic party, however, the country's isolation on the

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international scene will deepen, making its economic recovery even more doubtful. In this event, Pinochet may be laying the groundwork for serious discontent with his leadership—which over the long run could set in motion a chain of events that might encourage international military opposition and threaten his position.

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ARGENTINA

A rebellion yesterday by air force officers has reportedly resulted in the replacement of the air force commander in chief, General Fautario. He has been succeeded by General Orlando Ramon Agosti, reportedly a staunch anti-Peronist.

The officers, led by General Orlando Cappellini, seized Fautario and others and held them for several hours. The rebellious officers said their action was motivated by dissatisfaction over recent "arbitrary" promotions and transfers. Fautario has never been particularly popular among his subordinates; moreover, some who considered him too pro-Peronist may have thought this an ideal opportunity to join in an effort against him.

Cappellini's move was probably part of a running feud he had had with his commander.

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In an effort to justify and gain support for their effort, the rebellious officers issued communiques urging other military services to join them in seeking a "new Christian morality" instead of a discredited national leadership. We have seen no sign that navy or army officers responded in any way.

The rebellious officers apparently planned their move to coincide with the absence from the country of the army commander in chief, General Videla, who is said to oppose a military move against the government at this time. They hoped that with Videla gone, they could persuade the other services to back—or at least not oppose—their effort.

If the new commander is indeed anti-Peronist, his accession may speed the day when the three armed services can agree on a means to oust the discredited regime.

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FOR THE RECORD

CUBA: The Cuban Communist Party's first congress has produced no surprises so far. Party Second Secretary Raul Castro delivered the opening address on Wednesday, but he did little more than set the stage for the reading of the lengthy "main report" by party First Secretary Fidel Castro. Fidel began the reading Wednesday morning, finishing at about noon yesterday. An analysis of the available text indicates no new trends in Cuban domestic or foreign policy. Fidel is expected to deliver the closing address on Monday, when he is likely to tell the Cuban people for the first time of Havana's considerable involvement in Angola.

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ANNEX

NATO Acts on Arms Standardization

The need for greater allied efforts in the area of arms standardization was a major topic at the meetings of foreign and defense ministers of the NATO countries in Brussels last week.

Allied concern over steadily increasing Soviet military might and growing economic pressures in the NATO states have brought new initiatives to a concept that is as old as the alliance itself. A compromise approach has been worked out that satisfies both the French, who want to emphasize the European component of a standardization effort, and the other allies, who do not want to lose sight of cooperation within the alliance as a whole.

France will participate in an informal ad hoc committee which will study how best to make the member states' equipment compatible and usable by all—in effect, an early stage of standardization. The committee will prepare an action program for presentation to the NATO foreign ministers when the North Atlantic Council meets again in Oslo next May. The committee will try to determine the areas where action is most urgently needed—perhaps communications and ammunition, as the French have suggested.

French Reluctance

Despite French reluctance, the allies last week agreed in principle to continue discussions within NATO on the broader questions of standardization on both sides of the Atlantic, procurement, and research and development. France insists that policy guidelines on these issues must first be developed among the Europeans. This is critical, Paris argues, if European industrial and technical capabilities are to be protected.

Just recently, the French agreed to participate in a purely European effort to promote the joint production of equipment based on common requirements. An informal group of European officials will meet next month to begin studying how much cooperation may be possible. A proposal to create a European arms procurement secretariat was rejected by the French on the grounds that it would be too closely linked to NATO or its Eurogroup.

The allies right now are willing to accept the French-imposed limitations on NATO efforts as a price for getting France involved in the standardization effort. The Belgians and the West Germans, in particular, recognize the delicacy of involving the French in "Atlantic" schemes.

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Political opposition in France to participation in any standardization scheme is intense both on the left and on the right. The decision to involve France, even in such a modest fashion, reportedly was made by President Giscard only after much wrangling.

Giscard still maintains that an independent defense policy is a fundamental tenet of French foreign policy. He recognizes, however, that greater European collaboration in arms efforts could lead to more orders for French arms makers, thereby increasing employment and helping the economy in general.

France will presumably seek to establish specific projects for inter-European cooperation within the new informal European group. The aim will be to assure an important role for French industry and to achieve a measure of European unity before engaging in NATO-wide negotiations. At the same time, of course, Paris will continue to seek bilateral deals with the US that will strengthen French production capabilities in defense and advanced technology areas.

The Europeans are willing to play along with the French as long as some momentum toward standardization is maintained. They realize that without French participation, there can be no meaningful rationalization of European defense industries.

European Reaction

If the French prove too troublesome in the European group, however, the allies will again be tempted to proceed without them. The UK and Italy, in particular, have warned that there is a limit to how far the Europeans should go in trying to keep the French involved.

The UK is especially anxious to build a "two-way street" in arms procurement across the Atlantic as a means of easing its balance-of-payments problems. London is suggesting that some decision should be reached soon to allow collaboration, both within Europe and across the Atlantic, to proceed in parallel.

The problem of a site for next month's session with senior West European defense, armaments, and foreign office officials, and for subsequent meetings if they materialize, is illustrative of the sensitivities aroused by the "NATO-vs-Europe" aspect of the standardization debate. The French will probably protest London as a choice, arguing that it is too closely identified with the Eurogroup. Brussels, the seat of NATO, is even more objectionable to Paris, and the other Europeans will not countenance holding meetings in Paris.

A "neutral" city is a more likely choice. Bonn may be suggested, but the Netherlands for one is likely to want eventually to stress links with NATO by holding sessions in Brussels.

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The participation of France, even if initially limited, is seen by many Europeans as providing a political impetus to European integration. The French deny any such intention and, in fact, remain skeptical of the arms cooperation arrangements that have been proposed by the EC Commission in the context of a common industrial policy.

Nevertheless, the new European endeavors—especially if France's partners can persuade France that otherwise it might be relatively isolated from arms cooperation—contain the seeds for a more rational division of labor among the Europeans and establish a forum for arms discussions that are still regarded as too "political" a burden for the EC to bear.

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